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US BANKRUPTCY COURT
Deborah L. Dorsey,
DISTRICT OF

As a concerned creditor, ad-hoc committee member, and long time trader in this industry, I am writing to formally object to the valuation motion submitted by the FTX estate regarding the schedule provided for valuing customer assets held on the exchange. My objection is founded on several critical points that I believe have not been adequately considered in the proposed valuation method.

Objection 1: Reliance on Coin Metrics

Summary

This objection questions the appropriateness of the estate's reliance on Coin Metrics for pricing digital assets. The inclusion of data from exchanges with questionable reliability, such as Binance, raises concerns about the accuracy and integrity of the pricing source. The use of Binance's data, given its history of manipulative practices, further exacerbates these concerns.

Arguments

- **Questionable Data from Binance**
 - Coin Metrics includes data from exchanges like Binance, which have been implicated in wash trading and anti-money laundering (AML) violations. Notably, between July 2022 and March 2023, Binance offered zero-fee trading on pairs like BTC/USDt, BTC/BUSD, and BTC/USDC. This period overlaps with FTX's bankruptcy proceedings.
 - The zero-fee model at Binance likely influenced trading behavior and market dynamics, potentially enabling cost-free market manipulation (See *Chart 1, in Appendix 1*). Relying on data from Binance during this period is questionable, given the potential distortions in market prices and trading volumes.
- **Discrepancy with Reputable Exchanges:**
 - In contrast to the prices sourced from Coin Metrics, respected exchanges with a similar international focus such as Bitfinex (See *Chart 2 in Appendix 2*) reported significantly higher Bitcoin prices than those proposed by the estate as of the petition date (10am ET November 11th, 2022).
 - The discrepancy in prices from the data provided by Coin Metrics suggests that the estate's reliance on this pricing source might lead to an undervaluation of digital assets. It raises a concern that the prices used in the estate's calculations do not accurately reflect the true market value of the assets as of the relevant date.

Objection 2: Impact of Bankruptcy on Asset Valuation

Summary

This objection highlights the significant impact that the bankruptcy of FTX has had on the valuation of underlying assets. This bankruptcy is unique in the correlation between the entity and the market impact of the underlying assets associated with its bankruptcy. It argues that during this tumultuous period, price discovery was severely compromised, as counterparty risks overshadowed asset worth, and various actors engaged in manipulative practices to protect their interests. The objection emphasizes that the chaotic market conditions, influenced by insider actions and firesales, resulted in asset values that do not merit use as a benchmark for assessing creditors.

Arguments

- **Distorted Asset Valuations During Bankruptcy:**
 - The market conditions during FTX's bankruptcy were marked by disorder and volatility, undermining the reliability of asset valuations. The widespread panic, coupled with fragmented pricing across different trading venues, indicates that price discovery was not only ambiguous but highly unreliable.
 - Since the initial fallout, the market has experienced significant recovery, demonstrating improved stability, reduced spreads, and more consistent pricing across venues. This recovery suggests that the valuation method for creditors' claims must consider the temporary and extraordinary market conditions triggered by the bankruptcy, which distorted asset values.
- **Manipulation Prior to Bankruptcy:**
 - The CoinDesk article, titled 'Divisions in Sam Bankman-Fried's Crypto Empire Blur on His Trading Titan Alameda's Balance Sheet',¹ published on November 2, 2022, played a pivotal role in accelerating FTX's collapse. This event extends the relevant timeframe for asset price manipulation, as FTX insiders had strong motivations to influence asset prices, especially during the period leading up to the bankruptcy declaration and while in discussions with potential investors for a buyout.
 - The influence of this pre-bankruptcy period on asset prices is significant. It suggests that asset valuations during this time were likely compromised, further complicating the process of fair and accurate price discovery, not just at the moment of bankruptcy but also in the lead-up to it.

Objection 3: Realized values and Title**Summary:**

¹ Divisions in Sam Bankman-Fried's Crypto Empire Blur on His Trading Titan Alameda's Balance Sheet, CoinDesk, November 2, 2022

This objection challenges the discrepancies between asset realization values and the offers made to creditors, arguing that the estate's actual sale prices should more accurately reflect asset worth. Additionally, it emphasizes the legal obligation of FTX to honor the title guarantee to digital asset holders as per their terms of service, asserting that neglecting this commitment undermines the legal rights of customers

Arguments:

- **Disparity in Asset Realization Values:**
 - There is a noticeable disparity between the values at which the estate is realizing assets and the values being offered to creditors. It is reasonable to argue that the prices achieved by the estate in the sale of these assets should serve as a more accurate indicator of their worth, rather than the undervalued figures currently proposed.
- **Title Guarantee to Digital Asset Holders**
 - The terms of service provided by FTX included a title guarantee to digital asset holders. This guarantee implies a legal obligation to honor the titled property rights of these asset holders. Disregarding this commitment undermines the legal rights of customers and contradicts the terms agreed upon.

In light of these points, I urge the court to reconsider the valuation method proposed by the FTX estate. It is paramount that the process is fair, transparent, and reflective of the actual value of customer assets, ensuring equitable treatment for all creditors.

Thank you for considering my objections. I am committed to ensuring a fair resolution for all parties involved in this case.

Appendix 1

Chart 1 - Binance BTC/USDt Daily Trading Volume

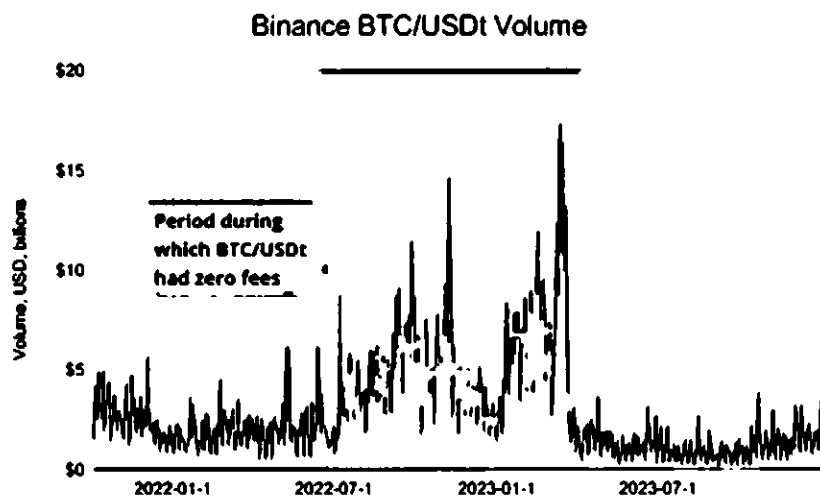


Chart 2 - BTC/USD Bitfinex

